INDIANA HOUSING FINANCE AUTHORITY

Financial Statements

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)

KPMG LLP
2400 First Indiana Plaza
135 North Pennsylvania Street
Indianapolis, IN 46204-2452

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Indiana Housing Finance Authority:

We have audited the accompanying statements of net assets of the major funds and business-type activities of the Indiana Housing Finance Authority (Authority), a component unit of the State of Indiana, as of December 31, 2003 and 2002 and the related individual statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the major funds and business-type activities of the Indiana Housing Finance Authority as of December 31, 2003 and 2002 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 6, and the schedule of funding progress and employer contributions on page 45 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2004 on our consideration of the Indiana Housing Finance Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

KPMG LLP

Indianapolis, Indiana
February 27, 2004

This section of the Indiana Housing Finance Authority's (Authority) annual financial report presents management's discussion and analysis of financial position and the results of operations during the fiscal years ended December 31, 2003 and 2002. This information is being presented to provide additional information regarding the activities of the Authority and to meet the disclosure requirements of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments.* This analysis should be read in conjunction with the Independent Auditors' Report, financial statements and accompanying notes.

The Authority's financial statements include the operations of funds that the Authority has established to achieve its purpose. The financial transactions of the Authority are recorded in the funds which consist of a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses as appropriate. The Authority is a self-supporting entity and follows enterprise fund reporting. The Authority is considered a component unit of the State of Indiana (State) and is discretely presented in the State's financial statements.

2003 Financial Highlights

The assets of the Authority exceeded its liabilities at December 31, 2003 by $190.4 million compared to $199.0 million at December 31, 2002. Net assets at December 31, 2003 consist of $130.2 million restricted by bond indentures, $3.4 million restricted by funding sources, and $56.7 million which is unrestricted and available to meet the obligations of the Authority's operations.

Total assets decreased by $12.8 million or 1 percent during 2003 from $1,199 million to $1,187 million due mainly to the decrease of $116.6 million in the mortgage loan portfolio which includes new loans funded with current year bond proceeds offset by loan repayments and a $104 million increase in non-mortgage investments resulting from the investment of proceeds from bond issuances and line of credit.

The Authority's largest liability, total bonds payable, decreased by $58.1 million or 6 percent during 2003 from $997.5 million to $939.4 million.

The total change in net assets in 2003 was a decrease of $8.6 million consisting of operating loss of $7.6 million (which includes a net decrease in the fair value of investments of $13.4 million) and total non-operating loss of $1.0 million.

In 2003, total operating revenues were $198.5 million which includes interest income on mortgage loans of $46.9 million, federal program income of $140.1 million, interest income on investments of $11.2 million, a net decrease in the fair value of securities of $13.4 million, $11.9 million in fee income and $1.8 million of other income.

Total operating expenses in 2003 were $206.1 million which includes $52.0 million of interest expense on bonds, $140.1 million of direct federal program expenses, $11.5 million of general and administrative expense, $1.6 million of amortization of debt issuance costs and $.9 million of other expenses.

2002 Financial Highlights

The assets of the Authority exceeded its liabilities at December 31, 2002 by $199 million compared to $154 million at December 31, 2001. Net assets at December 31, 2002 consist of $139.4 million restricted by bond indentures, $3.0 million restricted by funding sources, and $56.5 million which is available to meet the obligations of the Authority's operations.

Total assets increased by $58.4 million (5 percent) during 2002 from $1,141 million to $1,199 million due to the increase of $25.2 million in the mortgage loan portfolio which includes new loans funded with current year bond proceeds and a $34 million increase in non-mortgage investments resulting from the bond issuances and loan repayments.

The Authority's largest liability, total bonds payable, increased by $13.7 million (1 percent) during 2002 from $984.0 million to $997.6 million.

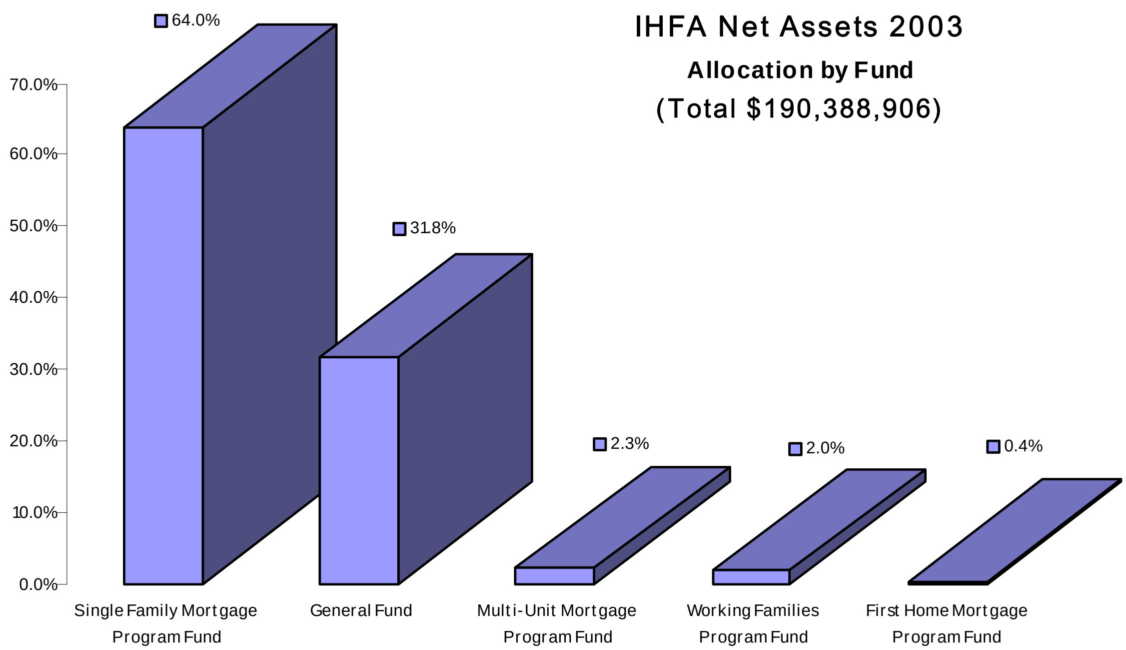
The total change in net assets in 2002 was $45.2 million consisting of operating income of $40.6 million and total non-operating income of $4.6 million.

In 2002, total operating revenues were $241.9 million which includes interest income on mortgage loans of $53.9 million, federal program income of $128.9 million, interest income on investments of $11.1 million, a net increase in the fair value of securities of $35.0 million, $11.5 million in fee income and $1.5 million of other income.

Total operating expenses in 2002 were $201.3 million which includes $57.3 million of interest expense on bonds, $128.9 million of direct federal program expenses, $10.9 million of general and administrative expense, $3.4 million of amortization of debt issuance costs and $.8 million of other expenses.

2003 Financial Condition

The Authority operates within financial policies and guidelines set by the members of the Board of Directors. These guidelines require the Authority to maintain adequate liquid asset levels, good mortgage portfolio performance and a sufficient level of unrestricted net assets. Total net assets as of December 31, 2003 decreased 4% to $190.4 million from $199.0 million in the previous year. Unrestricted net assets increased $.2 million or .04% from the prior year, comprising 4.8% of total assets and 29.8% of total net assets. Total assets decreased $12.8 million or 1.1% from the prior year.



2002 Financial Condition

Total net assets as of December 31, 2002 increased 29.4% to $199.0 million from $153.8 million in the previous year. Unrestricted net assets increased $7.3 million or 14.9% from the prior year, comprising 4.7% of total assets and 28.4% of total net assets. Total assets grew $58.4 million or 5.1% from the prior year.

INDIANA HOUSING FINANCE AUTHORITY

Management's Discussion and Analysis

December 31, 2003 and 2002

(Unaudited)

2003 Financial Analysis

The following table is a condensed summary of net assets at December 31, 2003 and 2002 (in thousands):

	2003	2002	Change	Percentage
Assets				
Current assets	$ 55,913	54,488	1,425	2.6%
Noncurrent assets	1,130,644	1,144,905	(14,261)	-1.2%
Total assets	1,186,557	1,199,393	(12,836)	-1.1%
Liabilities				
Current liabilities	68,375	15,926	52,449	329.3%
Noncurrent liabilities	927,793	984,494	(56,701)	-5.8%
Total liabilities	996,168	1,000,420	(4,252)	-0.4%
Net assets				
Restricted	133,648	142,456	(8,808)	-6.2%
Unrestricted	56,741	56,517	224	0.4%
Total net assets	$ 190,389	198,973	(8,584)	-4.3%

Operating Analysis

The following table is a condensed summary of operating income for the years ended December 31, 2003 and 2002 (in thousands):

	2003	2002	Change	Percentage
Operating Revenues				
Interest on loans	$ 46,919	53,919	(7,000)	-13.0%
Interest on investments	11,246	11,131	115	1.0%
Program revenues	152,255	140,521	11,734	8.4%
Net increase (decrease) in fair value of investments	(13,443)	34,999	(48,442)	-138.4%
Other operating revenue	1,488	1,329	159	12.0%
Total operating revenues	198,465	241,899	(43,434)	-18.0%
Operating Expenses				
Total interest expense	52,382	57,594	(5,212)	-9.0%
Program expenses	142,234	132,833	9,401	7.1%
Other operating expenses	11,482	10,883	599	5.5%
Total operating expenses	206,098	201,310	4,788	2.4%
Operating income (loss)	$ (7,633)	40,589	(48,222)	-118.8%

Interest income on mortgage loans, interest income on investments, fee income, and federal grant income represent the significant sources of operating revenue for the Authority.

Interest income on mortgage loans of $46.9 million for 2003 decreased compared to $53.9 million for 2002. This decrease is due to a decrease in outstanding mortgage loans in the Single Family Mortgage Program Fund.

Interest income on investments of $11.2 million for 2003 increased compared to $11.1 million. The increase is due to an increase in investments during the current year.

The change in fair value of securities for 2003 was $(13.4) million compared to $35 million in 2002. This represents a decrease in the overall fair value of investments held at December 31, 2003 compared to their fair value at December 31, 2002 due to the current interest rate environment. Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* requires the Authority to value its securities at market value with the change in fair value reported as operating revenue. The change in the fair value of securities is an unrealized loss in market value and has no direct effect on actual cash flows.

Fee income of $11.9 million for the current year increased compared to $11.5 million in the prior year primarily as a result of additional fees earned under the Authority's contract with the U.S. Department of Housing and Urban Development to perform certain tasks for Section 8 Contract Administration.

Total interest expense on bonds is $52.0 million in 2003 compared to $57.3 million in 2002. Decreased interest expense is a result of a decrease in total bonds outstanding due to prepayments of $266.7 million, offset by the issuance in 2003 of five series of mortgage revenue bonds under the Single Family Indenture.

Total general and administrative expense is $11.5 million compared to $10.9 million in 2002. The increase is primarily due to additional expense incurred to perform the tasks required for Section 8 Contract Administration.

Federal program income and expense represent funds received and disbursed relating to projects funded by the U.S. Department of Housing and Urban Development Section 8 Contract Administration, Community Development Block Grant, HOME Investment Partnership, and other federal programs totaling $140.1 million in 2003.

2002 Financial Analysis

The following table is a condensed summary of net assets at December 31, 2002 and 2001 (in thousands):

		2002	2001	Change	Percentage
Assets					
Current assets	$	54,488	46,492	7,996	17.2%
Noncurrent assets		1,144,905	1,094,500	50,405	4.6%
Total assets		1,199,393	1,140,992	58,401	5.1%
Liabilities					
Current liabilities		15,926	15,146	780	5.1%
Noncurrent liabilities		984,494	972,052	12,442	1.3%
Total liabilities		1,000,420	987,198	13,222	1.3%
Net assets					
Restricted		142,456	104,625	37,831	36.2%
Unrestricted		56,517	49,169	7,348	14.9%
Total net assets	$	198,973	153,794	45,179	29.4%

Operating Analysis

The following table is a condensed summary of operating income for the years ended December 31, 2002 and 2001 (in thousands):

		2002	2001	Change	Percentage
Operating Revenues					
Interest on loans	$	53,919	54,322	(403)	-0.7%
Interest on investments		11,131	11,792	(661)	-5.6%
Program revenues		140,521	117,226	23,295	19.9%
Net increase in fair value of investments		34,999	12,110	22,889	189.0%
Other operating revenue		1,329	1,066	263	24.7%
Total operating revenues		241,899	196,516	45,383	23.1%
Operating Expenses					
Total interest expense		57,594	55,634	1,960	3.5%
Program expenses		132,833	109,131	23,702	21.7%
Other operating expenses		10,883	9,903	980	9.9%
Total operating expenses		201,310	174,668	26,642	15.3%
Operating income	$	40,589	21,848	18,741	85.8%

Interest income on mortgage loans, interest income on investments, the net increase in fair value of securities, fee income, and federal grant income represent the significant sources of operating revenue for the Authority.

Interest income on mortgage loans of $53.9 million for 2002 decreased compared to $54.3 million for 2001. This decrease is due to lower interest rates on outstanding mortgage loans in the Single Family Mortgage Program Fund.

Interest income on investments of $11.1 million for 2002 decreased compared to $11.8 million. The decrease is due to lower rates on investments during the current year consistent with general economic conditions.

The change in fair value of securities for 2002 was $35 million compared to $12.1 million in 2001. This represents an increase in the overall fair value of investments held at December 31, 2002 compared to their fair value at December 31, 2001 due to current interest rate environment. Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* requires the Authority to value its securities at market value with the change in fair value reported as operating revenue. The change in the fair value of securities is an unrealized gain in market value and has no direct effect on actual cash flows.

Fee income of $11.5 million for the current year increased compared to $9.5 million in the prior year primarily as a result of additional fees earned under the Authority's contract with the U.S. Department of Housing and Urban Development to perform certain tasks for Section 8 Contract Administration and an increase in loan purchases in the Single Family loan program.

Total interest expense on bonds is $57.3 million in 2002 compared to $55.3 million in 2001. Increased interest expense is a result of an increase in total bonds outstanding due to the issuance in 2002 of five series of mortgage revenue bonds under the Single Family Indenture.

Total general and administrative expense is $10.9 million compared to $9.9 million in 2001. The increase is primarily due to additional expense incurred to perform the tasks required for Section 8 Contract Administration.

Federal program income and expense represent funds received and disbursed relating to projects funded by the U.S. Department of Housing and Urban Development Section 8 Contract Administration, Community Development Block Grant, HOME Investment Partnership, and other federal programs totaling $128.9 million in 2002.

2003 Nonoperating Activities

Interest income on investments for the General Fund is presented as nonoperating activity and totaled $2.4 million for 2003 compared to interest income on investments of $2.9 million in this fund in 2002. The decrease in income is primarily due to decreased interest rates consistent with the current interest rate environment. The Authority elected to use unrestricted funds to supplement the down payment assistance program which is represented by nonoperating expense of $3.5 million.

2002 Nonoperating Activities

Interest income on investments for the General Fund is presented as nonoperating activity and totaled $2.9 million for 2002 compared to interest income on investments of $3.3 million in this fund in 2001. The decrease in income is primarily due to decreased interest rates consistent with the current interest rate environment.

2003 Debt Administration

Total current and noncurrent bonds payable, not including any original issue premium/(discount), as of December 31, 2003 is $936.3 million which decreased $61.3 million compared to December 31, 2002. This decrease was due to the issuance in 2003 of five series of mortgage revenue bonds under the Single Family Indenture totaling $291.8 million offset by $353.1 million of repayments and redemptions of bonds previously issued by the Authority. The Authority has maintained its long-term bond ratings of Aaa from Moody's Investors Services and AAA from Fitch IBCA. More detailed information about the Authority's debt is presented in Note 6 to the financial statements.

The following table summarizes the 2003 mortgage revenue bond issuances:

Single Family Mortgage Revenue Bonds	Tax-Exempt Amount	Taxable Amount	Total	Moody's Rating	Fitch Rating
2003 Series A	$ 44,950,000	—	44,950,000	Aaa	AAA
2003 Series B	44,950,000	—	44,950,000	Aaa	AAA
2003 Series C	44,950,000	—	44,950,000	Aaa	AAA
2003 Series D	50,165,000		50,165,000	Aaa	AAA
2003 Series E	106,755,000	—	106,755,000	Aaa	AAA
Total	$ 291,770,000	—	291,770,000		

2002 Debt Administration

Total current and noncurrent bonds payable as of December 31, 2002 is $997.6 million which increased $13.7 million compared to December 31, 2001. This increase was due to the issuance in 2002 of five series of mortgage revenue bonds under the Single Family Indenture totaling $249.9 million offset by $236.2 million of repayments and redemptions of bonds previously issued by the Authority.

The following table summarizes the 2002 mortgage revenue bond issuances:

Single Family Mortgage Revenue Bonds	Tax-Exempt Amount	Taxable Amount	Total	Moody's Rating	Fitch Rating
2002 Series A	$ 40,000,000	—	40,000,000	Aaa	AAA
2002 Series B	40,000,000	—	40,000,000	Aaa	AAA
2002 Series C	45,690,000	—	45,690,000	Aaa	AAA
2002 Series D	40,000,000	5,000,000	45,000,000	Aaa	AAA
2002 Series E	79,205,000	—	79,205,000	Aaa	AAA
Total	$ 244,895,000	5,000,000	249,895,000		

Economic Factors and Other Financial Information

The primary business activity of the Authority is funding the purchase of single-family home mortgages. The Authority's mortgage financing activities are sensitive to the level of interest rates, the spread between the rate available on Authority loans and those available in the conventional mortgage markets and the availability of affordable housing. The availability of long-term tax-exempt financing on favorable terms is a key element in providing the funding necessary for the Authority to continue its mortgage financing activities.

The Authority's single-family programs and investment income are the main sources of revenues. Market interest rates have an effect on both the single family program and investment income revenues. If interest rates continue at current levels, the Authority expects single family and investment income to be stable or decrease slightly. If interest rates rise, the Authority expects single family and investment income to increase as new loans are originated and new investments are purchased at the higher levels. If interest rates fall, the Authority expects single family and investment income to decrease as new loans are originated and new investments are purchased at the lower levels. The Authority also expects a drop in market rates to cause an increase in prepayments on higher rate mortgages. The Authority uses these prepayments to call the corresponding series bonds, which lowers the rate of return on those bond series.

Contacting the Authority's Financial Management

This financial report is designed to provide the citizens of Indiana, our constituents and investors with a general overview of the Authority's finances and resources. If you have questions about this report or need additional financial information, contact the Chief Financial Officer at Indiana Housing Finance Authority, 30 South Meridian Street Suite 1000, Indianapolis, IN 46204 or visit our website at www.in.gov/ihfa/.

INDIANA HOUSING FINANCE AUTHORITY

Statements of Net Assets

December 31, 2003 and 2002

		2003						
Assets		**General Fund**	**Single Family Mortgage Program Fund**	**Multi-Unit Mortgage Program Fund**	**First Home Mortgage Program Fund**	**Working Families Program Fund**	**Total**	**2002 Total**
Current Assets								
Cash and investments	$	54,232,130	—	—	—	—	54,232,130	52,897,103
Accrued interest receivable:								
Investments		321,202	—	—	—	—	321,202	348,056
Mortgage loans		20,000	—	—	—	—	20,000	23,000
Accounts receivable and other assets		1,340,048	—	—	—	—	1,340,048	1,219,730
Total current assets		55,913,380	—	—	—	—	55,913,380	54,487,889
Noncurrent Assets								
Restricted cash and investments		56,583,184	308,358,366	7,040,611	29,491	343,291	372,354,943	269,454,637
Mortgage loans receivable (note 5)		2,079,320	—	—	—	—	2,079,320	2,629,529
Restricted mortgage loans receivable (note 5)		—	707,232,955	13,710,168	6,037,800	16,157,288	743,138,211	859,401,768
Less unamortized commitment fees		(19,156)	(81,894)	(298,202)	—	—	(399,252)	(654,104)
Net mortgage loans receivable		2,060,164	707,151,061	13,411,966	6,037,800	16,157,288	744,818,279	861,377,193
Restricted accrued interest receivable:								
Investments		—	440,928	22,282	—	—	463,210	664,758
Mortgage loans		—	3,382,914	38,600	29,505	83,393	3,534,412	4,333,732
Deferred debt issuance costs, net		270,732	8,406,842	43,010	22,315	140,567	8,883,466	8,384,030
Capital assets, at cost, less accumulated depreciation		91,140	—	—	—	—	91,140	88,367
Restricted accounts receivable and other assets		486,832	11,243	—	—	—	498,075	602,337
Interfund accounts		638,470	(616,623)	(5,121)	(2,174)	(14,552)	—	—
Total noncurrent assets		60,130,522	1,027,134,731	20,551,348	6,116,937	16,709,987	1,130,643,525	1,144,905,054
Total assets	$	116,043,902	1,027,134,731	20,551,348	6,116,937	16,709,987	1,186,556,905	1,199,392,943
Liabilities								
Current Liabilities								
Bonds payable (note 6)	$	—	12,295,000	301,000	145,000	65,000	12,806,000	13,962,000
Line of Credit (note 6)		53,670,000	—	—	—	—	53,670,000	—
Accrued interest payable		62,714	191,166	—	—	—	253,880	557,567
Accounts payable and other liabilities (note 8)		920,874	—	—	—	—	920,874	996,411
Commitment fee deposits		723,973	—	—	—	—	723,973	409,921
Total current liabilities		55,377,561	12,486,166	301,000	145,000	65,000	68,374,727	15,925,899
Noncurrent Liabilities								
Bonds payable (note 6)		—	889,570,000	16,052,000	5,140,000	12,735,000	923,497,000	983,673,000
Less original issue discount		—	(42,924)	(68,536)	—	—	(111,460)	(131,254)
Add original issue premium		—	3,242,704	—	—	—	3,242,704	—
Net noncurrent bonds payable		—	892,769,780	15,983,464	5,140,000	12,735,000	926,628,244	983,541,746
Other liabilities		433,974	590,624	—	—	140,430	1,165,028	952,312
Total noncurrent liabilities		433,974	893,360,404	15,983,464	5,140,000	12,875,430	927,793,272	984,494,058
Total liabilities		55,811,535	905,846,570	16,284,464	5,285,000	12,940,430	996,167,999	1,000,419,957
Net Assets								
Invested in capital assets		91,140	—	—	—	—	91,140	88,367
Restricted by bond indenture		—	121,288,161	4,266,884	831,937	3,769,557	130,156,539	139,362,284
Restricted by funding source		3,400,016	—	—	—	—	3,400,016	3,005,431
Unrestricted		56,741,211	—	—	—	—	56,741,211	56,516,904
Total net assets	$	60,232,367	121,288,161	4,266,884	831,937	3,769,557	190,388,906	198,972,986

(Continued)

INDIANA HOUSING FINANCE AUTHORITY

Statements of Net Assets (Continued)

December 31, 2003 and 2002

	2002					
Assets	**General Fund**	**Single Family Mortgage Program Fund**	**Multi-Unit Mortgage Program Fund**	**First Home Mortgage Program Fund**	**Working Families Program Fund**	**Total**
Current Assets						
Cash and investments	$ 52,897,103	—	—	—	—	52,897,103
Accrued interest receivable:						
Investments	348,056	—	—	—	—	348,056
Mortgage loans	23,000	—	—	—	—	23,000
Accounts receivable and other assets	1,219,730	—	—	—	—	1,219,730
Total current assets	54,487,889	—	—	—	—	54,487,889
Noncurrent Assets						
Restricted cash and investments	2,479,515	258,620,737	5,118,852	734,174	2,501,359	269,454,637
Mortgage loans receivable (note 5)	2,629,529	—	—	—	—	2,629,529
Restricted mortgage loans receivable (note 5)	—	802,096,327	22,807,386	8,609,568	25,888,487	859,401,768
Less unamortized commitment fees	(27,964)	(141,545)	(484,595)	—	—	(654,104)
Net mortgage loans receivable	2,601,565	801,954,782	22,322,791	8,609,568	25,888,487	861,377,193
Restricted accrued interest receivable:						
Investments	—	606,538	22,282	35,938	—	664,758
Mortgage loans	—	4,058,379	97,032	42,111	136,210	4,333,732
Deferred debt issuance costs, net	379,400	7,744,626	46,962	27,426	185,616	8,384,030
Capital assets, at cost, less accumulated depreciation	88,367	—	—	—	—	88,367
Restricted accounts receivable and other assets	525,916	76,421	—	—	—	602,337
Interfund accounts	735,770	(700,572)	(8,323)	(3,102)	(23,773)	—
Total noncurrent assets	6,810,533	1,072,360,911	27,599,596	9,446,115	28,687,899	1,144,905,054
Total assets	$ 61,298,422	1,072,360,911	27,599,596	9,446,115	28,687,899	1,199,392,943
Liabilities						
Current Liabilities						
Bonds payable (note 6)	$ —	13,125,000	327,000	240,000	270,000	13,962,000
Accrued interest payable	—	473,625	83,942	—	—	557,567
Accounts payable and other liabilities (note 8)	996,411	—	—	—	—	996,411
Commitment fee deposits	409,921	—	—	—	—	409,921
Total current liabilities	1,406,332	13,598,625	410,942	240,000	270,000	15,925,899
Noncurrent Liabilities						
Bonds payable (note 6)	—	927,725,000	23,183,000	8,455,000	24,310,000	983,673,000
Less original issue discount	—	(56,199)	(75,055)	—	—	(131,254)
Net noncurrent bonds payable	—	927,668,801	23,107,945	8,455,000	24,310,000	983,541,746
Other liabilities	281,388	401,517	128,977	—	140,430	952,312
Total noncurrent liabilities	281,388	928,070,318	23,236,922	8,455,000	24,450,430	984,494,058
Total liabilities	1,687,720	941,668,943	23,647,864	8,695,000	24,720,430	1,000,419,957
Net Assets						
Invested in capital assets	88,367	—	—	—	—	88,367
Restricted by bond indenture	—	130,691,968	3,951,732	751,115	3,967,469	139,362,284
Restricted by funding source	3,005,431	—	—	—	—	3,005,431
Unrestricted	56,516,904	—	—	—	—	56,516,904
Total net assets	$ 59,610,702	130,691,968	3,951,732	751,115	3,967,469	198,972,986

See accompanying notes to financial statements.

INDIANA HOUSING FINANCE AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

For the years ended December 31, 2003 and 2002

		2003					
	General Fund	**Single Family Mortgage Program Fund**	**Multi-Unit Mortgage Program Fund**	**First Home Mortgage Program Fund**	**Working Families Program Fund**	**Total**	**2002 Total**
Operating revenues:							
Interest income on mortgage loans	$ 245,024	43,879,551	1,081,476	437,154	1,275,490	46,918,695	53,918,704
Interest income on investments	—	10,777,604	137,668	60,964	270,224	11,246,460	11,131,049
Commitment fee amortization	8,808	59,651	186,393	—	—	254,852	114,164
Fee income	11,705,582	—	159,553	—	—	11,865,135	11,517,289
Federal program income	140,135,351	—	—	—	—	140,135,351	128,890,456
Net increase (decrease) in fair value of investments	(987,210)	(11,885,332)	(32,420)	(127,782)	(410,304)	(13,443,048)	34,998,661
Other income	1,487,497	—	—	—	—	1,487,497	1,328,860
Total operating revenues	152,595,052	42,831,474	1,532,670	370,336	1,135,410	198,464,942	241,899,183
Operating expenses:							
Interest expense on bonds	—	49,221,356	979,238	460,604	1,363,463	52,024,661	57,331,719
Interest expense on bank loans	357,770	—	—	—	—	357,770	261,885
Amortization of debt issuance costs	108,668	1,409,781	3,951	5,111	45,049	1,572,560	3,359,927
Servicing fees on mortgage loans	8,740	46,310	12,412	—	—	67,462	235,888
Federal program expenses	140,135,351	—	—	—	—	140,135,351	128,890,456
Arbitrage expense	—	287,351	—	—	—	287,351	347,240
Bond call premium	—	—	171,375	—	—	171,375	—
General and administrative expenses	9,222,239	2,041,331	162,448	11,277	44,259	11,481,554	10,883,229
Total operating expenses	149,832,768	53,006,129	1,329,424	476,992	1,452,771	206,098,084	201,310,344
Operating income (loss)	2,762,284	(10,174,655)	203,246	(106,656)	(317,361)	(7,633,142)	40,588,839
Nonoperating revenues (expenses):							
Interest income on investments	2,437,156	—	—	—	—	2,437,156	2,942,694
Other (note 1)	(3,500,000)	—	111,906	—	—	(3,388,094)	1,646,942
Total nonoperating revenues (expenses)	(1,062,844)	—	111,906	—	—	(950,938)	4,589,636
Income before transfers	1,699,440	(10,174,655)	315,152	(106,656)	(317,361)	(8,584,080)	45,178,475
Transfers	(1,077,775)	770,848	—	187,478	119,449	—	—
Change in net assets	621,665	(9,403,807)	315,152	80,822	(197,912)	(8,584,080)	45,178,475
Net assets, beginning of year	59,610,702	130,691,968	3,951,732	751,115	3,967,469	198,972,986	153,794,511
Net assets, end of year	$ 60,232,367	121,288,161	4,266,884	831,937	3,769,557	190,388,906	198,972,986

(Continued)

INDIANA HOUSING FINANCE AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets (Continued)

For the years ended December 31, 2003 and 2002

	2002					
	General Fund	**Single Family Mortgage Program Fund**	**Multi-Unit Mortgage Program Fund**	**First Home Mortgage Program Fund**	**Working Families Program Fund**	**Total**
Operating revenues:						
Interest income on mortgage loans	$ 329,949	48,568,527	2,493,889	594,405	1,931,934	53,918,704
Interest income on investments	—	10,612,629	210,187	58,720	249,513	11,131,049
Commitment fee amortization	13,632	72,643	27,889	—	—	114,164
Fee income	11,517,289	—	—	—	—	11,517,289
Federal program income	128,890,456	—	—	—	—	128,890,456
Net increase (decrease) in fair value of investments	185,491	33,638,896	102,232	370,192	701,850	34,998,661
Other income	1,328,860	—	—	—	—	1,328,860
Total operating revenues	142,265,677	92,892,695	2,834,197	1,023,317	2,883,297	241,899,183
Operating expenses:						
Interest expense on bonds	—	52,543,250	2,239,509	604,931	1,944,029	57,331,719
Interest expense on bank loans	261,885	—	—	—	—	261,885
Amortization of debt issuance costs	78,600	2,079,225	1,116,211	11,463	74,428	3,359,927
Servicing fees on mortgage loans	11,793	64,021	160,074	—	—	235,888
Federal program expenses	128,890,456	—	—	—	—	128,890,456
Arbitrage expense	—	347,240	—	—	—	347,240
General and administrative expenses	8,386,006	2,076,065	344,766	13,258	63,134	10,883,229
Total operating expenses	137,628,740	57,109,801	3,860,560	629,652	2,081,591	201,310,344
Operating income (loss)	4,636,937	35,782,894	(1,026,363)	393,665	801,706	40,588,839
Nonoperating revenues (expenses):						
Interest income on investments	2,942,694	—	—	—	—	2,942,694
Other (note 1)	—	—	1,646,942	—	—	1,646,942
Total nonoperating revenues (expenses)	2,942,694	—	1,646,942	—	—	4,589,636
Income before transfers	7,579,631	35,782,894	620,579	393,665	801,706	45,178,475
Transfers	(1,010,146)	1,010,146	—	—	—	—
Change in net assets	6,569,485	36,793,040	620,579	393,665	801,706	45,178,475
Net assets, beginning of year	53,041,217	93,898,928	3,331,153	357,450	3,165,763	153,794,511
Net assets, end of year	$ 59,610,702	130,691,968	3,951,732	751,115	3,967,469	198,972,986

See accompanying notes to financial statements.

INDIANA HOUSING FINANCE AUTHORITY

Statements of Cash Flows

For the years ended December 31, 2003 and 2002

	2003					
	General Fund	Single Family Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Total
Cash flows from operating activities:						
Cash receipts for services	$ 13,607,242	—	—	—	—	13,607,242
Interest income on mortgage loans	248,024	44,555,016	1,139,908	449,760	1,328,308	47,721,016
Principal repayments on mortgage loans	550,209	224,652,273	9,097,218	2,443,986	9,320,893	246,064,579
Interest received on investments	—	10,943,214	137,668	96,902	270,224	11,448,008
Federal revenue	140,135,351	—	—	—	—	140,135,351
Federal expenses	(140,135,351)	—	—	—	—	(140,135,351)
Purchases of mortgage loans	—	(140,851,179)	—	—	—	(140,851,179)
Cash payments to suppliers	(7,077,757)	(2,120,708)	(315,659)	(11,277)	(44,259)	(9,569,660)
Cash payments to employees	(2,157,407)	—	—	—	—	(2,157,407)
Interfund transfers	(980,475)	686,899	(3,202)	186,550	110,228	—
Net cash provided by operating activities	4,189,836	137,865,515	10,055,933	3,165,921	10,985,394	166,262,599
Cash flows from noncapital financing activities:						
Proceeds from bond issues	—	295,022,979	—	—	—	295,022,979
Proceeds from bank loans	53,670,000					53,670,000
Debt issuance costs incurred		(2,071,997)	—	—	—	(2,071,997)
Repayments and redemption of bonds	—	(330,755,000)	(7,157,000)	(3,410,000)	(11,780,000)	(353,102,000)
Interest paid on bonds and bank loans	(295,056)	(49,500,815)	(1,056,661)	(460,604)	(1,363,463)	(52,676,599)
Contribution from Pedcor	—	—	111,906	—	—	111,906
Payment to Indiana Affordable Housing	—	—	—	—	—	—
Down Payment Assistance Fund distribution	(3,500,000)	—	—	—	—	(3,500,000)
Trust Fund distribution	—	—	—	—	—	—
Net cash used in noncapital financing activities	49,874,944	(87,304,833)	(8,101,755)	(3,870,604)	(13,143,463)	(62,545,711)
Cash flows from capital financing activities:						
Purchases of capital assets	(76,030)	—	—	—	—	(76,030)
Net cash used in capital financing activities	(76,030)	—	—	—	—	(76,030)
Cash flows from investing activities:						
Purchases of investments	(41,760,148)	(35,218,671)	—	—	—	(76,978,819)
Interest received on investments	2,490,864	—	—	—	—	2,490,864
Proceeds from sales or maturities of investments	35,918,438	—	571,143	674,924	2,458,918	39,623,423
Net cash provided by (used in) investing activities	(3,350,846)	(35,218,671)	571,143	674,924	2,458,918	(34,864,532)
Increase (decrease) in cash and cash equivalents	50,637,904	15,342,011	2,525,321	(29,759)	300,849	68,776,326
Cash and cash equivalents, beginning of year	12,287,937	14,400,301	3,480,295	29,919	14,794	30,213,246
Cash and cash equivalents, end of year	$ 62,925,841	29,742,312	6,005,616	160	315,643	98,989,572

(Continued)

INDIANA HOUSING FINANCE AUTHORITY

Statements of Cash Flows

For the years ended December 31, 2003 and 2002

		2003					
		General Fund	**Single Family Mortgage Program Fund**	**Multi-Unit Mortgage Program Fund**	**First Home Mortgage Program Fund**	**Working Families Program Fund**	**Total**
Reconciliation of cash and cash equivalents:							
Current cash and investments as presented in the statement of net assets	$	54,232,130	—	—	—	—	54,232,130
Restricted cash and investments as presented in the statement of net assets		56,583,184	308,358,366	7,040,611	29,491	343,291	372,354,943
Total cash and investments as presented in the statement of net assets		110,815,314	308,358,366	7,040,611	29,491	343,291	426,587,073
Less: investments with maturities greater than three months		47,889,473	278,616,054	1,034,995	29,331	27,648	327,597,501
Cash and cash equivalents as presented in the statement of cash flows	$	62,925,841	29,742,312	6,005,616	160	315,643	98,989,572
Reconciliation of operating income to net cash provided by operating activities:							
Operating income	$	2,762,284	(10,174,655)	203,246	(106,656)	(317,361)	(7,633,142)
Adjustments to reconcile operating income to cash provided by operating activities:							
Change in fair value of investments		987,210	11,885,332	32,420	127,782	410,304	13,443,048
Interest on bonds and bank loans		357,770	49,218,356	972,719	460,604	1,363,463	52,372,912
Amortization and write-off of debt issuance costs and discount amortization		108,668	1,412,781	10,470	5,111	45,049	1,582,079
Amortization of nonrefundable fee income		(8,808)	(59,651)	(186,393)	—	—	(254,852)
Depreciation		73,257	—	—	—	—	73,257
Changes in assets and liabilities:							
Commitment fee deposits		314,052	—	—	—	—	314,052
Purchases of mortgage loans		—	(140,851,179)	—	—	—	(140,851,179)
Principal repayments on mortgage loans		550,209	224,652,273	9,097,218	2,443,986	9,320,893	246,064,579
Accrued interest receivable on loans/investments		29,854	841,075	58,432	48,544	52,818	1,030,723
Other assets		(81,234)	65,177	—	—	—	(16,057)
Accounts payable and other liabilities		77,049	189,107	(128,977)	—	—	137,179
Interfund accounts		97,300	(83,949)	(3,202)	(928)	(9,221)	—
Interfund transfer		(1,077,775)	770,848	—	187,478	119,449	—
Net cash provided by operating activities	$	4,189,836	137,865,515	10,055,933	3,165,921	10,985,394	166,262,599

(Continued)

INDIANA HOUSING FINANCE AUTHORITY

Statements of Cash Flows (Continued)

For the years ended December 31, 2003 and 2002

	2002					
	General Fund	Single Family Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Total
Cash flows from operating activities:						
Cash receipts for services	$ 12,790,777	—	—	—	—	12,790,777
Interest income on mortgage loans	337,949	48,630,774	2,612,757	607,055	1,979,762	54,168,297
Principal repayments on mortgage loans	869,049	168,666,981	16,581,843	2,457,905	8,427,503	197,003,281
Interest received on investments	—	10,609,636	210,187	59,540	249,513	11,128,876
Federal revenue	128,890,456	—	—	—	—	128,890,456
Federal expenses	(128,890,456)	—	—	—	—	(128,890,456)
Purchases of mortgage loans	—	(188,631,558)	—	—	—	(188,631,558)
Cash payments to suppliers	(6,148,654)	(2,249,086)	(504,806)	(13,258)	(63,134)	(8,978,938)
Cash payments to employees	(2,098,931)	—	—	—	—	(2,098,931)
Interfund transfers	(992,623)	1,002,568	(661)	(935)	(8,349)	—
Net cash provided by operating activities	4,757,567	38,029,315	18,899,320	3,110,307	10,585,295	75,381,804
Cash flows from noncapital financing activities:						
Proceeds from bond issues	—	249,895,000	—	—	—	249,895,000
Debt issuance costs incurred	(300,000)	(1,960,304)	—	—	—	(2,260,304)
Repayments and redemption of bonds	—	(207,525,000)	(18,680,000)	(2,020,000)	(8,020,000)	(236,245,000)
Interest paid on bonds and bank loans	(261,885)	(52,758,713)	(2,691,128)	(604,931)	(1,944,029)	(58,260,686)
Contribution from Pedcor	—	—	155,784	—	—	155,784
Payment to Indiana Affordable Housing	—	—	1,491,158	—	—	1,491,158
Down Payment Assistance Fund distribution	—	—	—	—	—	—
Trust Fund distribution	—	—	—	—	—	—
Net cash used in noncapital financing activities	(561,885)	(12,349,017)	(19,724,186)	(2,624,931)	(9,964,029)	(45,224,048)
Cash flows from capital financing activities:						
Purchases of capital assets	(16,318)	—	—	—	—	(16,318)
Net cash used in capital financing activities	(16,318)	—	—	—	—	(16,318)
Cash flows from investing activities:						
Purchases of investments	(21,180,000)	(37,576,844)	—	(613,060)	(707,037)	(60,076,941)
Interest received on investments	2,914,064	—	—	—	—	2,914,064
Proceeds from sales or maturities of investments	17,549,231	—	947,134	—	—	18,496,365
Net cash provided by (used in) investing activities	(716,705)	(37,576,844)	947,134	(613,060)	(707,037)	(38,666,512)
Increase (decrease) in cash and cash equivalents	3,462,659	(11,896,546)	122,268	(127,684)	(85,771)	(8,525,074)
Cash and cash equivalents, beginning of year	8,825,278	26,296,847	3,358,027	157,603	100,565	38,738,320
Cash and cash equivalents, end of year	$ 12,287,937	14,400,301	3,480,295	29,919	14,794	30,213,246

(Continued)

INDIANA HOUSING FINANCE AUTHORITY

Statements of Cash Flows (Continued)

For the years ended December 31, 2003 and 2002

	2002					
	General Fund	Single Family Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Total
Reconciliation of cash and cash equivalents:						
Current cash and investments as presented in the statement of net assets	$ 52,897,103	—	—	—	—	52,897,103
Restricted cash and investments as presented in the statement of net assets	2,479,515	258,620,737	5,118,852	734,174	2,501,359	269,454,637
Total cash and investments as presented in the statement of net assets	55,376,618	258,620,737	5,118,852	734,174	2,501,359	322,351,740
Less: investments with maturities greater than three months	43,088,681	244,220,436	1,638,557	704,255	2,486,565	292,138,494
Cash and cash equivalents as presented in the statement of cash flows	$ 12,287,937	14,400,301	3,480,295	29,919	14,794	30,213,246
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	$ 4,636,937	35,782,894	(1,026,363)	393,665	801,706	40,588,839
Adjustments to reconcile operating income to cash provided by operating activities:						
Change in fair value of investments	(185,491)	(33,638,896)	(102,232)	(370,192)	(701,850)	(34,998,661)
Interest on bonds and bank loans	261,885	52,536,077	2,230,398	604,931	1,944,029	57,577,320
Amortization and write-off of debt issuance costs and discount amortization	92,914	2,083,406	1,125,322	12,283	74,428	3,388,353
Amortization of nonrefundable fee income	(13,632)	(72,643)	(27,889)	—	—	(114,164)
Depreciation	196,373	—	—	—	—	196,373
Changes in assets and liabilities:						
Nonrefundable fees received and commitment fee deposits	(276,750)	—	—	—	—	(276,750)
Purchases of mortgage loans	—	(188,631,558)	—	—	—	(188,631,558)
Principal repayments on mortgage loans	869,049	168,666,981	16,581,842	2,457,905	8,427,503	197,003,280
Accrued interest receivable on loans	8,000	62,247	118,868	12,650	47,828	249,593
Other assets	(122,882)	(4,980)	—	—	—	(127,862)
Accounts payable and other liabilities	283,787	243,219	35	—	—	527,041
Interfund accounts	17,523	(7,578)	(661)	(935)	(8,349)	—
Interfund transfer	(1,010,146)	1,010,146	—	—	—	—
Net cash provided by operating activities	$ 4,757,567	38,029,315	18,899,320	3,110,307	10,585,295	75,381,804

See accompanying notes to financial statements.

(1) Authorizing Legislation and Funds

The Indiana Housing Finance Authority (the Authority) was created in 1978 by an act of the Indiana Legislature (the Act). The Authority has been given numerous powers under the Act, including the power to enter into contracts and agreements, acquire, hold and convey property and issue notes and bonds, for the purpose of financing residential housing for persons and families of low and moderate incomes.

The powers of the Authority are vested by the Act in seven members who constitute the Board of Directors, four of whom are appointed by the Governor and three of whom serve by virtue of holding other state offices. The three ex-officio members are the Director of Department of Commerce, the Treasurer of State and Director of the Department of Financial Institutions. By statute, the Lieutenant Governor is Director of the Indiana Department of Commerce. The Lieutenant Governor and Treasurer of State hold elective positions, and the Director of the Department of Financial Institutions holds an appointive position at the pleasure of the Governor. The Authority is considered a component unit of the State of Indiana and is discretely presented in the State's Financial Statements as determined by the Indiana State Board of Accounts.

The Act empowers the Authority to (1) make or participate in the making of construction loans and mortgage loans to sponsors of federally assisted multi-family residential housing; (2) purchase or participate in the purchase from mortgage lenders, mortgage loans made to persons of low and moderate income for residential housing; and (3) make loans to mortgage lenders for the purpose of furnishing funds to be used for making mortgage loans to persons and families of low and moderate incomes. The Act authorizes the Authority to issue its bonds and notes to carry out its purposes, and neither the Act nor the Bond Trust Indentures establish any limitation as to the aggregate amount of obligations which the Authority may have outstanding.

The Authority's financial statements include the operations of funds that the Authority has established to achieve its purposes under powers granted to it by the Act. The financial transactions of the Authority are recorded in the funds which consist of a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses as appropriate. The Authority's resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which financial activity is controlled. Each of the Authority's funds described below are considered major funds.

General Fund

The General Fund was established by the Authority to account for all fee income and charges which are not required to be recorded in other funds and for operating expenses of the Authority. In addition, this fund accounts for the federal grant activity related to various Federal programs administered by the Authority. In 2003, the Authority elected to allocate $3,500,000 of the General Fund's assets to supplement the down payment assistance program administered by the Fund. In 2003 and 2002, the Authority elected to set aside $66,450,875 and $55,626,300, respectively, of its single family bonding authority for the issuance of Mortgage Credit Certificates primarily to first time home buyers.

Single Family Mortgage Program Fund

The Single Family Mortgage Program Fund provides for the purchase of mortgage loans made to eligible borrowers for owner occupied housing. Borrowers meeting certain income guidelines may qualify under the Authority's First Home Plus Program. This program is facilitated by a Down Payment Assistance Program funded by federal HOME Investment Partnerships Program funds which allows the borrower to receive up to 10% of down payment assistance money. This down payment assistance money is in the form of a non-amortizing second mortgage at a 0% interest rate which is forgivable after five years. The Authority has issued fifty-five series of Single Family Mortgage Program Bonds (see note 6).

Commencing in June 1980, the Authority entered into mortgage purchase agreements with certain commercial banks, savings and loan associations and mortgage banking companies admitted to do business in the State of Indiana whereby the lenders agreed to originate mortgage loans on newly constructed and existing dwellings meeting criteria established by the Authority and to sell them to the Authority.

Multi-Unit Mortgage Program Fund

This fund, established in 1982 under the Multi-Unit Mortgage Program Resolution, uses bond proceeds to provide construction and long-term financing for certain federally assisted multi-unit housing developments intended for occupancy by families and persons of low and moderate incomes. The Authority has issued four series of Multi-Unit Program Bonds and is the special purpose issuer for two series (see note 6).

The Multi-Family Housing Mortgage Revenue Bonds are limited and special obligations of the Authority payable solely from the payments on the mortgage note, certain other payments under the Building Loan Agreement made by the owner and required debt service reserves of the issue. Neither the Bonds nor the obligation to pay the principal or interest thereon constitutes an indebtedness of the Authority or the State of Indiana.

In December 1999, the Authority, as a special purpose issuer, issued $18,190,000 of Multi-Family Housing Mortgage Revenue Bonds (Indiana Affordable Housing) under a separate closed indenture, which are included in these financial statements as part of the Authority's Multi-Unit Mortgage Program Fund. The proceeds of the bonds were used to originate a mortgage loan to finance the acquisition and rehabilitation of five HUD 236 properties located throughout the State of Indiana. The bonds were backed solely by the revenues from these properties. Fannie Mae provided a credit enhancement on the loan which ensured the timely payment of principal and interest on payments on the mortgage loan. The mortgage loan went into default in July 2001. Fannie Mae completed the foreclosure process in 2002. As a result of the foreclosure, FNMA repaid the mortgage loan. The proceeds were used to call the bonds as of December 31, 2002, resulting in a gain of $1,491,158.

In August of 1997, the Authority, as a special purpose issuer, issued $10,000,000 of Multi-Family Housing Mortgage Revenue Bonds (Cumberland Crossing) under a separate closed indenture, which are included in these financial statements as a part of the Authority's Multi-Unit Mortgage Program Fund. The proceeds of the bonds were used to originate a mortgage loan to construct a new multi-family residential rental facility containing 232 apartment units. The expended funds are subject to the terms of a loan agreement dated July 1, 1997, and the bonds are secured by two letters of credit issued by the Federal Home Loan Bank that expire August 21, 2007. Pedcor Investments 1997 XXX LP (Pedcor) is responsible for the bond payments from a source of funds outside of the Authority. During 2003 and 2002, Pedcor contributed $111,906 and $155,783, respectively, in order for the full amount of the bond payments to be made.

In April of 1992, the Authority, as a special purpose issuer, issued $7,230,000 of Multi-Family Housing Mortgage Revenue Bonds (Hunter's Run) under a separate closed indenture, which are included in these financial statements as a part of the Authority's Multi-Unit Mortgage Program Fund. The proceeds of the bonds, after funding the required reserves, were used by the project owner to acquire and rehabilitate an existing multi-family residential rental facility containing 304 apartment units. The expended funds are subject to a mortgage loan amortizable over 40 years commencing October 1, 1993. The permanent mortgage is insured by the Federal Housing Administration pursuant to the provisions of Section 221 (d) (4) of the National Housing Act of 1934. In October 2003, the mortgage note was paid in full. A prepayment penalty of $159,553 was received and is reflected on the Statement of Revenues, Expenses and Changes in Net Assets as fee income. The proceeds were used to pay off the remaining bonds, which resulted in a bond call premium of $171,375, reflected on the Statement of Revenues, Expenses and Changes in Net Assets as Bond Call Premium.

First Home Mortgage Program Fund

Established in 1994, the First Home Indenture provides for the purchase of low-income mortgage loans which are securitized by the Federal National Mortgage Association (FNMA) which guarantees the timely payment of principal and interest. FNMA is a federally chartered stockholder-owned, privately managed corporation which works to provide liquidity to the residential mortgage market. The FNMA Certificates are collateralized by mortgage loans made to qualified persons and families of low income to finance the acquisition of single family residences in the State of Indiana. This program was facilitated by a Down Payment Assistance Program from federal HOME Investment Partnerships Program funds, which provided a 20% second mortgage at 0% interest. Therefore, the Authority offered 100% financing to all participants in this program. The Authority has issued four series in this Indenture which were privately placed with FNMA.

Working Families Program Fund

Established in December of 1994, this Indenture originally provided for the preservation of bond volume in the short term. A portion of the Convertible Option Bonds (COB) were remarketed into a single family mortgage program within this Indenture. The loans of the program are collateralized by FNMA and GNMA certificates. As a part of the remarketing of the COB, in July 1996, the Authority issued two series within this Indenture. Approximately eighty percent of the bond proceeds are utilized under the same guidelines as the Authority's Single Family Mortgage Program Fund.

The remaining twenty percent of the bond proceeds have been set aside for a special program referred to as the Working Families Program. This program allows for down payment assistance of 10% in addition to the 10% assistance described in the Single Family Mortgage Program Fund. The source of these additional funds is the positive arbitrage earned under the original COB investments and bonds. These arbitrage funds are loaned to the qualified borrower at 0% and are payable to the Authority upon payoff of the first mortgage.

(Continued)

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The Authority's financial statements have been prepared on the accrual basis of accounting and using the economic resource management focus. Accordingly, the Authority recognizes revenue in the period earned and expenses in the period incurred.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected, in addition to applying Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989, to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

(b) Investment Securities

The Authority reports its investments securities at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pool*, (Statement No. 31). Statement No. 31 requires investment securities, including mortgage-backed securities, to be recorded at fair value and the unrealized gains or losses reported in the Statement of Revenues, Expenses, and Changes in Net Assets. Realized gains or losses were computed as the difference between the proceeds of investment sales and the original cost of the investments sold. The calculation of realized gains or losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in prior years and the current year. Realized gain in the General Fund amounted to $35,755 and $5,346 for the years ended December 31, 2003 and 2002, respectively.

Following is a summary of the effects of valuing investment securities at fair value on total assets, net assets and change in net assets for 2003 and 2002:

		Total Assets			
		2003		**2002**	
		Fair Value	**Cost**	**Fair Value**	**Cost**
General Fund	$	116,043,902	115,310,560	61,298,422	59,542,115
Single Family Mortgage Program Fund		1,027,134,731	1,001,961,461	1,072,360,911	1,035,302,309
Multi-Unit Mortgage Program Fund		20,551,348	20,333,813	27,599,596	27,349,641
First Home Mortgage Program Fund		6,116,937	5,800,036	9,446,115	9,001,433
Working Families Program Fund		16,709,987	15,794,202	28,687,899	27,361,809
Total	$	1,186,556,905	1,159,200,072	1,199,392,943	1,158,557,307

(Continued)

		Net Assets			
		2003		2002	
		Fair Value	Cost	Fair Value	Cost
General Fund	$	60,232,367	59,499,025	59,610,702	57,854,395
Single Family Mortgage Program Fund		121,288,161	96,114,891	130,691,968	93,633,366
Multi-Unit Mortgage Program Fund		4,266,884	4,049,349	3,951,732	3,701,777
First Home Mortgage Program Fund		831,937	515,036	751,115	306,433
Working Families Program Fund		3,769,557	2,853,772	3,967,469	2,641,379
Total	$	190,388,906	163,032,073	198,972,986	158,137,350

		Income Before Transfers			
		2003		2002	
		Fair Value	Cost	Fair Value	Cost
General Fund	$	1,699,440	2,722,405	7,579,631	7,399,485
Single Family Mortgage Program Fund		(10,174,655)	1,710,677	35,782,894	2,143,998
Multi-Unit Mortgage Program Fund		315,152	347,572	620,579	518,347
First Home Mortgage Program Fund		(106,656)	21,126	393,665	23,473
Working Families Program Fund		(317,361)	92,943	801,706	99,856
Total	$	(8,584,080)	4,894,723	45,178,475	10,185,159

(c) Bond Issuance Costs

Bond issuance costs are deferred and amortized over the contractual life of the respective bond issue based on the interest method.

(d) Original Issue Discounts

Original issue discounts on bonds are amortized using the interest method, over the life of the bonds to which they relate.

(e) Original Issue Premiums

Original issue premiums on bonds are accreted using the interest method, over the life of the bonds to which they relate.

(f) Capital Assets

Capital assets consist primarily of office furniture and equipment in the General Fund which are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets which range from three to seven years.

(Continued)

A summary of capital assets (in thousands) being depreciated follows:

		Balance at December 31, 2002	Increases	Decreases	Balance at December 31, 2003
Building improvements	$	57	34	57	34
Furniture and equipment		1,481	42	—	1,523
Total accumulated depreciation		(1,450)	(73)	(57)	(1,466)
Total capital assets being depreciated, net of accumulated depreciation	$	88	3	—	91

		Balance at December 31, 2001	Increases	Decreases	Balance at December 31, 2002
Building improvements	$	57	—	—	57
Furniture and equipment		1,465	16	—	1,481
Total accumulated depreciation		(1,254)	(196)	—	(1,450)
Total capital assets being depreciated, net of accumulated depreciation	$	268	(180)	—	88

(g) Fair Value of Financial Instruments

The fair value of the Authority's financial instruments either approximate fair value or are stated at fair value except for bonds payable. It is not practicable to estimate the fair value of the Authority's bonds payable because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

(h) Operating and Nonoperating Revenues

The Authority records all revenues derived from mortgages, and federal programs as operating revenues since these revenues are generated from the Authority's daily operations needed to carry out its statutory purpose. Investment income in the General Fund is recorded as nonoperating revenue while investment income in all other funds is recorded as operating.

(i) Fee Income

Nonrefundable fees received (commitment and buy-down fees) in excess of direct costs associated with originating mortgage loans are deferred and recognized over the life of the mortgage loans. Fees for Mortgage Credit Certificate and Mortgage Revenue Bond Programs are recorded as fee income in the General Fund as certificates are issued. Low Income Housing Tax Credit fees are recognized as applications are submitted. The Authority also receives certain administrative fees for a federal grant program which are recorded as earned.

(j) Provision for Possible Loan Losses

No provision for possible loan losses has been made because the Authority has purchased mortgage pool insurance on its loans, or they are fully insured by the FHA, as described in note 5. The remaining loans have been pooled into FNMA or GNMA mortgage-backed securities which ensures the timely payment of principal and interest on the underlying mortgage loans.

(k) Bonds, Bank Loans and Interest Payable

Bond principal, bank loan principal and interest payments due and paid on January 1 of the following fiscal year are considered paid as of December 31.

(l) Allocation of Expenses Among Funds

The Single Family, GNMA, First Home, Multi-Unit Mortgage, and Working Families Programs, provide that funds may be transferred to the General Fund for the purpose of paying reasonable and necessary program expenses.

(m) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and on deposit and investments with a maturity of three months or less.

(n) Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires estimates and assumptions that affect the reported amount of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) Net Assets

The Authority’s resources are classified for accounting and financial reporting purposes into the following net asset categories:

- *Invested in Capital Assets* – resources resulting from capital acquisition, net of accumulated depreciation.
- *Restricted by Bond Indenture* – net assets subject to externally imposed stipulations as to use. These net assets are restricted to use for the purposes of the Authority’s loan programs projects.
- *Unrestricted* – net assets which are available for use of the System.
- *Restricted by Funding Source* – net assets subject to externally imposed stipulations as to use. These net assets are restricted for use for the purposes of certain loan programs.

(p) Use of Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, then unrestricted resources as they are needed.

(3) Restricted Cash and Restricted Investments

The Trust Indentures between the Authority and the Program Trustee established special accounts for the segregation of assets and restriction of the use of bond proceeds and certain other funds received. As of December 31, 2003 and 2002, the assets of all accounts equaled or exceeded the requirements as established by the Indentures. Such assets are restricted for the following purposes:

	December 31, 2003						
	General Fund	Single Family Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Total	December 31, 2002 Total
Refundable Reservation Fee Escrow Accounts	$ 723,973	—	—	—	—	723,973	409,921
Loan or Bond Proceeds Accounts - Payment of issuance costs and purchase of qualified mortgage loans	—	209,162,028	—	—	311,051	209,473,079	134,354,779
Revenue Accounts-Deposit of Program revenues for debt service payments and Program expense disbursements	—	73,302,774	3,911,222	29,491	32,240	77,275,727	102,466,296
Mortgage Reserve Accounts-Payment of expenses incurred in protecting the Authority's interest in mortgage loans, including property repair and improvement	31,596	2,302,707	—	—	—	2,334,303	2,503,710
Debt Service Reserve Accounts-Equal to the maximum annual amount of debt service requirements on outstanding bonds during current or any future calendar year, a percentage of mortgage loans receivable under the indenture, or the amount of designated as debt service reserve accounts bonds	—	23,590,857	3,129,389	—	—	26,720,246	27,663,629
Loan Loss Escrow Account-Established to reserve for mortgage loan defaults not covered by the Federal Department of Housing and Urban Development, and shall be maintained at one-half of one percent of the outstanding principal balance of loans purchased	6,746	—	—	—	—	6,746	9,885
Rebate arbitrage account (Hunter's Run)	—	—		—	—	—	18,304
ADFA investment	1,223,264	—	—	—	—	1,223,264	1,220,659
Draw downs on Line of Credit	53,670,000	—	—	—	—	53,670,000	—
Federal programs funds	927,605	—	—	—	—	927,605	807,454
	$ 56,583,184	308,358,366	7,040,611	29,491	343,291	372,354,943	269,454,637

(Continued)

	December 31, 2002					
	General Fund	Single Family Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Total
Refundable Reservation Fee Escrow Accounts	$ 409,921	—	—	—	—	409,921
Loan or Bond Proceeds Accounts - Payment of issuance costs and purchase of qualified mortgage loans	—	134,144,908	—	—	209,871	134,354,779
Revenue Accounts-Deposit of Program revenues for debt service payments and Program expense disbursements		98,054,732	1,385,902	734,174	2,291,488	102,466,296
Mortgage Reserve Accounts-Payment of expenses incurred in protecting the Authority's interest in mortgage loans, including property repair and improvemen	31,596	2,306,257	165,857	—	—	2,503,710
Debt Service Reserve Accounts-Equal to the maximum annual amount of debt servic requirements on outstanding bonds durin current or any future calendar year, a percentage of mortgage loans receivable under the indenture, or the amount of designated as debt service reserve accounts bonds	—	24,114,840	3,548,789	—	—	27,663,629
Loan Loss Escrow Account-Established to reserve for mortgage loan defaults no covered by the Federal Department of Housing and Urban Development, and shall be maintained at one-half of one percent of the outstanding principal balance of loans purchased	9,885	—	—	—	—	9,885
Rebate arbitrage account (Hunter's Run)	—	—	18,304	—	—	18,304
ADFA investment	1,220,659	—	—	—	—	1,220,659
Federal programs funds	807,454	—	—	—	—	807,454
	$ 2,479,515	258,620,737	5,118,852	734,174	2,501,359	269,454,637

(Continued)

(4) Cash and Investments

A summary of cash and investments as of December 31, 2003 and 2002 follows:

		2003			
		Category 1	**Category 3**	**Total Fair Value**	**Cost**
Cash and collateralized repurchase agreements	$	95,205,055	2,984,515	98,189,570	98,189,570
Certificates of deposit		800,000	—	800,000	800,000
U.S. Treasury Bonds and Notes		13,714,307	—	13,714,307	10,551,410
Federal agency obligations		79,500,194	—	79,500,194	78,854,285
Guaranteed investment contracts and other		234,383,000	—	234,383,000	234,383,000
	$	423,602,556	2,984,515	426,587,071	422,778,265

		2002			
		Category 1	**Category 3**	**Total Fair Value**	**Cost**
Cash and collateralized repurchase agreements	$	25,794,378	3,618,868	29,413,246	29,413,246
Certificates of deposit		920,473	—	920,473	920,473
U.S. Treasury Bonds and Notes		14,440,387	—	14,440,387	10,798,700
Federal agency obligations		71,773,659	—	71,773,659	69,728,100
Guaranteed investment contracts and other		205,803,975	—	205,803,975	205,803,975
	$	318,732,872	3,618,868	322,351,740	316,664,494

The Authority’s cash and collateralized repurchase agreements are insured in full by the combination of Federal deposit insurance and the Indiana Public Deposit Insurance Fund. The Authority's investments are categorized by the level of custodial credit risk assumed. Category 1 includes investments insured or registered or held by the entity, its agent or its trustee in the Authority's name. Category 3 includes bank balances that are not collateralized or insured but are held by the Authority's banks. The Bond Indentures permit investments in the direct obligations of, or obligations guaranteed by, the United States of America, obligations issued by certain agencies of the Federal government, and investments collateralized by those types of investments. At December 31, 2003 and 2002, all investments held by the Authority were in compliance with the requirements of the Indentures.

(Continued)

(5) Mortgage Loans Receivable

The Single Family Mortgage Program requires that mortgage loans shall be made to borrowers whose adjusted family income does not exceed 125% of the median income for the borrower's geographic area. At least 40% of the mortgage loans purchased by the Authority must be loans to borrowers whose income is below 80% of the median income for the borrower's geographic area. In addition, Section 103A of the Internal Revenue Code specifies certain requirements with respect to the nature of the residence, mortgage and eligibility of the borrower.

The Single Family Mortgage Program Bond Trust Indenture requires that all mortgage loans be insured by the FHA, VA or, if the loan to value ratio is greater than 80%, by an approved private mortgage insurer.

The Indenture also requires pool insurance ranging from 10% to 25% of the initial principal amount of mortgage loans to be purchased. The Authority has obtained mortgage pool insurance covering any potential net losses on all mortgage loans financed from the proceeds of the 1980 through 1987 Single Family Mortgage Program bonds.

The proceeds of the 1992 through 2003 Single Family and Working Family bonds were used to purchase GNMA and FNMA certificates collateralized by mortgage loans approved under the guidelines of the Single Family Mortgage Program.

All of the mortgages in the Multi-Unit Mortgage Program Fund except Cumberland Crossing and Indiana Affordable Housing are insured by the FHA. The mortgages are insured under the FHA 221 (d) (4) program. The mortgages in the Cumberland Crossing Series are secured by two letters of credit. The mortgage in the Indiana Affordable Housing Series is secured by FNMA under a credit facility. Pursuant to the credit agreement with FNMA, this mortgage was paid off in 2002 as a result of foreclosure.

Mortgage loans which collateralize the FNMA certificates purchased by the Authority under the First Home Mortgage Program requires that the loans be made to first-time home owners and meet the standard requirements for FNMA underwritten mortgages, as well as U.S. Department of Housing and Urban Development (HUD) guidelines.

The financing periods of the mortgage loans financed through the Single Family, First Home, and Working Families Mortgage Programs vary in duration from twenty-five to thirty years (principally thirty years). The financing rates at December 31, 2003, are as follows:

Single Family Mortgage Program	Mortgage Rate	Certificate Rate
1985 Series B	8.190% to 13.880%	
1987 Series C	8.950% to 9.470%	
1992 Series A	6.250% to 13.875%	5.665% to 6.900%
1995 Series A	7.440% to 7.540%	6.935% to 6.940%
1995 Series B	6.750% to 9.940%	6.245% to 6.250%
1995 Series C	6.650% to 10.700%	6.135% to 6.150%
1996 Series A	7.150% to 7.250%	6.625% to 6.650%
1996 Series D	6.250% to 9.940%	5.750% to 6.650%
1997 Series A	6.250% to 8.500%	5.750% to 6.400%
1997 Series B	6.000% to 7.375%	5.415% to 6.875%

Single Family Mortgage Program	Mortgage Rate	Certificate Rate
1997 Series C	6.250% to 7.270%	5.750% to 6.760%
1997 Series D	6.875% to 7.250%	6.250% to 6.700%
1998 Series A	6.000% to 7.500%	5.415% to 7.000%
1998 Series B	6.500% to 7.500%	5.915% to 7.000%
1998 Series C	6.000% to 7.500%	5.415% to 7.000%
1998 Series D	6.000% to 8.900%	5.415% to 6.250%
1999 Series A	6.000% to 7.750%	5.415% to 7.250%
1999 Series X	6.000% to 8.900%	5.415% to 8.400%
1999 Series Y	6.000% to 8.900%	5.415% to 8.400%
1999 Series Z	6.000% to 7.750%	5.415% to 7.250%
2000 Series A	6.500% to 8.000%	6.000% to 7.500%
2000 Series B	6.000% to 8.350%	5.500% to 7.850%
2000 Series C	6.500% to 8.350%	5.915% to 7.850%
2000 Series D	6.250% to 8.500%	5.665% to 8.040%
2001 Series A	6.500% to 8.000%	5.915% to 7.415%
2001 Series B	6.250% to 7.500%	5.665% to 7.000%
2001 Series C	6.250% to 6.500%	5.665% to 6.000%
2002 Series A	6.000% to 7.250%	5.500% to 6.750%
2002 Series B	6.250% to 7.500%	5.665% to 6.915%
2002 Series C	5.750% to 6.500%	5.250% to 5.915%
2002 Series D	5.500% to 6.500%	5.000% to 6.000%
2003 Series A	5.250% to 6.250%	4.750% to 5.750%
2003 Series B	5.250% to 6.250%	4.750% to 5.750%
2003 Series C	5.500% to 5.750%	5.000% to 5.250%

First Home Program	Mortgage Rate	Certificate Rate
1994 Series A	6.90%	6.28%
1994 Series B	6.75%	6.13%
1994 Series C	6.65%	6.03%
1994 Series D	6.80%	6.18%

Working Families Program Fund	Mortgage Rate	Certificate Rate
1994 Series D	7.380% to 7.480%	6.855% to 6.88%
1996 Series B	7.380% to 7.480%	6.855% to 6.88%

GNMA and FNMA certificates, which are included in the mortgage loan receivable balances are presented in the statement of net assets at fair value in accordance with the requirements of GASB Statement No. 31. All other loans are carried at cost. The table below summarizes the carrying value and cost of mortgage loans receivable.

		2003	
		Carrying Value	**Cost**
General Fund	$	2,079,320	2,079,320
Single Family Mortgage Program Fund		707,232,955	684,917,614
Multi-Unit Mortgage Program Fund		13,710,168	13,710,168
First Home Mortgage Program Fund		6,037,800	5,720,899
Working Families Program Fund		16,157,288	15,241,503
Total	$	745,217,531	721,669,504

		2002	
		Carrying Value	**Cost**
General Fund	$	2,629,529	2,629,529
Single Family Mortgage Program Fund		802,096,327	768,718,709
Multi-Unit Mortgage Program Fund		22,807,386	22,807,386
First Home Mortgage Program Fund		8,609,568	8,164,885
Working Families Program Fund		25,888,487	24,562,396
Total	$	862,031,297	826,882,905

(6) Bonds Payable

Bonds payable at December 31, 2003 and 2002 consist of (dollars in thousands):

Single Family Mortgage Program Fund		Original Amount	Balance 2003	Balance 2002
1992 A Refunding:				
Serial bonds (6.35%), due 2002	$	17,740	—	—
Term bonds (6.60%), due 2005		8,775	2,945	5,610
Term bonds (6.75%), due 2009		16,885	9,920	10,780
Term bonds (6.80%), due 2016		38,745	24,725	24,725
		82,145	37,590	41,115
1995 Series A:				
Serial bonds (5.50% to 6.00%), due 2003 – 2008		7,095	1,030	2,395
Term bonds (6.45%), due 2014		5,075	1,625	3,165
Term bonds (6.25%), due 2016		4,230	1,350	2,640
Term bonds (6.10%), due 2025		6,000	—	—
Term bonds (6.60%), due 2026		12,600	4,035	7,865
		35,000	8,040	16,065
1995 Series B:				
Serial bonds (5.20% to 5.75%), due 2003 – 2008		12,725	1,585	3,415
Term bonds (6.125%), due 2014		8,285	2,265	4,105
Term bonds (6.15%), due 2017		3,825	1,040	1,890
Term bonds (6.30%), due 2019		3,440	935	1,695
Term bonds (6.30%), due 2022		3,900	1,070	1,945
Term bonds (6.30%), due 2027		9,760	2,660	4,810
		41,935	9,555	17,860
1995 Series C:				
Serial bonds (5.00% to 5.55%), due 2003 – 2008		10,500	2,035	3,800
Term bonds (5.25%), due 2012		8,680	—	—
Term bonds (5.95%), due 2015		10,475	5,675	8,695
Term bonds (5.80%), due 2025		14,885	625	2,400
Term bonds (6.15%), due 2026		15,460	8,380	12,830
		60,000	16,715	27,725
1996 Series A:				
Serial bonds (5.45% to 6.05%), due 2003 – 2010		7,625	1,380	2,780
Term bonds (5.95%), due 2013		2,450	940	1,690
Term bonds (6.25%), due 2017		4,965	1,900	3,400
Term bonds (5.55%), due 2020		4,960	—	—
Term bonds (6.25%), due 2028		15,000	5,745	10,305
		35,000	9,965	18,175

(Continued)

Bonds payable, continued	Original Amount	Balance 2003	Balance 2002
1996 Series D:			
Serial bonds (5.05% to 5.55%), due 2003 – 2008	8,525	1,335	2,790
Term bonds (6.05%), due 2015	6,890	2,790	4,765
Term bonds (6.35%), due 2021	10,015	4,035	6,905
Term bonds (6.35%), due 2025	8,710	3,510	6,005
Term bonds (5.70%), due 2028	7,045	110	1,195
	41,185	11,780	21,660
1997 Series A-1:			
Term bonds (5.10%), due 2016	8,870	4,015	4,945
	8,870	4,015	4,945
1997 Series A-2:			
Serial bonds (4.85% to 5.40%), due 2003 – 2008	7,115	1,425	2,745
Term bonds (6.00%), due 2019	3,710	1,455	2,565
Term bonds (6.10%), due 2022	4,765	1,855	3,295
Term bonds (6.10%), due 2028	10,000	3,870	6,890
	25,590	8,605	15,495
1997 Series B-2:			
Term bonds (6.00%), due 2016	3,025	1,245	2,120
Term bonds (6.125%), due 2026	11,890	4,875	8,315
Term bonds (6.15%), due 2029	5,085	2,085	3,555
	20,000	8,205	13,990
1997 Series C-1:			
Taxable term bond (floating rate), due 2027	8,940	—	245
	8,940	—	245
1997 Series C-2:			
Term bonds (5.70%), due 2016	1,905	940	1,630
	1,905	940	1,630
1997 Series C-3:			
Serial bonds (4.95% to 5.25%), due 2003 – 2006	1,060	215	520
Term bonds (5.85%), due 2014	4,460	2,210	3,820
Term bonds (5.95%), due 2028	18,635	9,230	15,950
	24,155	11,655	20,290
1997 Series D-1:			
Taxable term bonds (6.94%), due 2019	14,680	—	5,970
	14,680	—	5,970

(Continued)

Bonds payable, continued	Original Amount	Balance 2003	Balance 2002
1997 Series D-2:			
Term bonds (5.85%), due 2020	960	885	960
Term bonds (5.875%), due 2024	6,450	5,945	6,450
Term bonds (5.90%), due 2026	4,840	4,460	4,840
Term bonds (5.90%), due 2030	8,070	7,440	8,070
	20,320	18,730	20,320
1998 Series A-1:			
Taxable term bonds (6.18%), due 2029	7,035	2,595	3,555
	7,035	2,595	3,555
1998 Series A-2:			
Serial bonds (4.85% to 4.95%), due 2010 – 2011	875	625	755
Term bonds (5.15%), due 2017	5,625	4,035	4,865
	6,500	4,660	5,620
1998 Series A-3:			
Serial bonds (4.40% to 5.05%), due 2003 – 2010	4,665	2,370	3,165
Term bonds (5.375%), due 2022	7,000	5,025	6,060
Term bonds (5.375%), due 2029	9,800	7,035	8,480
	21,465	14,430	17,705
1998 Series B-1:			
Taxable term bonds (6.45%), due 2029	15,000	7,405	9,135
	15,000	7,405	9,135
1998 Series B-2:			
Term bonds (5.40%), due 2016	4,285	2,055	3,170
	4,285	2,055	3,170
1998 Series B-3:			
Serial bonds (4.70% to 5.20%), due 2003 – 2010	3,035	1,075	1,815
Term bonds (5.55%), due 2024	8,860	4,245	6,555
Term bonds (5.55%), due 2030	10,000	4,745	7,335
	21,895	10,065	15,705
1998 Series C-1:			
Taxable term bonds (6.07%), due 2025	7,300	2,185	3,395
	7,300	2,185	3,395
1998 Series C-2:			
Term bonds (5.25%), due 2017	3,710	2,130	3,020
	3,710	2,130	3,020

Bonds payable, continued	Original Amount	Balance 2003	Balance 2002
1998 Series C-3:			
Serial bonds (4.35% to 5.15%), due 2003 – 2011	4,730	2,100	3,190
Term bonds (5.30%), due 2013	1,655	955	1,350
Term bonds (5.45%), due 2028	270	160	225
Term bonds (4.75%), due 2028	5,000	1,980	2,695
Term bonds (5.45%), due 2029	13,425	7,740	10,955
	25,080	12,935	18,415
1998 Series D-1:			
Term bonds (5.15%), due 2017	3,710	1,650	2,845
	3,710	1,650	2,845
1998 Series D-2:			
Serial bonds (4.10% to 4.90%), due 2003 – 2010	3,720	1,245	2,380
Term bonds (5.25%), due 2028	10,000	10,000	10,000
Term bonds (5.35%), due 2028	145	35	55
Term bonds (4.625%), due 2030	13,000	5,010	6,815
Term bonds (5.35%), due 2030	4,195	1,875	3,215
	31,060	18,165	22,465
1999 Series A-1:			
Term bonds (5.05%), due 2017	4,280	2,345	3,450
	4,280	2,345	3,450
1999 Series A-2:			
Serial bonds (4.05% to 5.00%), due 2003 – 2011	5,035	2,215	3,585
Term bonds (5.25%), due 2029	235	130	190
Term bonds (4.70%), due 2029	8,000	3,565	5,040
Term bonds (5.25%), due 2030	17,450	9,545	14,050
	30,720	15,455	22,865
1999 Series X-1:			
PAC bonds (5.96%), due 2030	10,000	5,375	6,930
	10,000	5,375	6,930
1999 Series X-2:			
Serial bonds (4.00% to 5.00%), due 2003 – 2012	2,725	665	1,915
Term bonds (5.15%), due 2019	4,900	1,320	3,645
Term bonds (4.55%), due 2030	9,000	3,695	4,760
Term bonds (5.30%), due 2031	15,035	4,035	11,160
	31,660	9,715	21,480

Bonds payable, continued	Original Amount	Balance 2003	Balance 2002
1999 Series Y-1:			
PAC bonds (6.86%), due 2031	15,000	8,775	10,925
	15,000	8,775	10,925
1999 Series Y-2:			
Term bonds (5.35%), due 2013	1,290	330	910
Term bonds (5.50%), due 2019	4,655	1,210	3,265
	5,945	1,540	4,175
1999 Series Y-3:			
Serial bonds (4.40% to 5.35%), due 2003 - 2012	2,955	730	2,020
PAC bonds (5.05%), due 2030	7,650	3,515	4,725
Term bonds (5.65%), due 2031	14,635	3,795	10,265
	25,240	8,040	17,010
1999 Series Z-1:			
PAC bonds (7.09%), due 2029	13,000	7,840	9,845
	13,000	7,840	9,845
1999 Series Z-2:			
Term bonds (5.55%), due 2013	545	30	270
	545	30	270
1999 Series Z-3:			
Serial bonds (4.65% to 5.70%), due 2003 - 2012	2,710	1,060	1,825
Term bonds (5.95%), due 2019	3,475	190	1,715
Term bonds (5.65%), due 2030	5,040	3,700	4,215
Term bonds (6.05%), due 2030	13,165	725	6,505
Term bonds (6.05%), due 2031	1,780	95	880
	26,170	5,770	15,140
2000 Series A-1:			
PAC bonds (7.75%), due 2030	15,000	10,655	13,050
	15,000	10,655	13,050
2000 Series A-2:			
Term bonds (6.25%), due 2019	4,430	—	1,015
	4,430	—	1,015
2000 Series A-3:			
Serial bonds (5.00% to 5.80%), due 2003 - 2010	1,930	—	415
Term bonds (6.45%), due 2030	13,220	—	3,040
PAC bonds (5.90%), due 2030	5,420	—	5,075
	20,570	—	8,530

Bonds payable, continued	Original Amount	Balance 2003	Balance 2002
2000 Series B-1:			
PAC bonds (7.57%), due 2030	15,000	9,870	12,325
	15,000	9,870	12,325
2000 Series B-2:			
Serial bonds (5.00% to 5.65%), due 2003 - 2012	4,815	590	2,605
Terms bonds (6.00%), due 2019	5,880	825	3,465
Terms bonds (6.10%), due 2030	15,000	2,105	8,825
Terms bonds (6.10%), due 2031	4,700	635	2,765
PAC bonds (5.55%), due 2031	10,950	6,260	7,375
	41,345	10,415	25,035
2000 Series C-1:			
PAC bonds (7.85%), due 2031	15,000	11,125	13,295
	15,000	11,125	13,295
2000 Series C-2:			
Term bonds (5.875%), due 2017	9,440	1,050	4,955
	9,440	1,050	4,955
2000 Series C-3:			
Serial bonds (5.20% to 5.60%), due 2003 - 2009	2,385	205	1,070
Term bonds (5.45%), due 2009	2,615	210	1,110
Term bonds (6.125%), due 2019	1,725	190	905
PAC bonds (5.65%), due 2030	11,000	6,610	7,895
Term bonds (6.30%), due 2030	5,000	555	2,625
Term bonds (6.30%), due 2031	10,265	1,145	5,390
	32,990	8,915	18,995
2000 Series D-1:			
PAC bonds (7.34%), due 2030	15,000	11,520	13,615
	15,000	11,520	13,615
2000 Series D-2:			
Serial bonds (4.80% to 5.15%), due 2007 - 2012	3,700	1,945	2,840
Term bonds (5.625%), due 2017	5,795	1,340	3,805
	9,495	3,285	6,645
2000 Series D-3:			
Serial bonds (4.85% to 5.05%), due 2003 - 2007	2,355	750	1,365
Term bonds (5.95%), due 2026	8,160	1,890	5,360
PAC bonds (5.35%), due 2031	10,000	6,270	7,380
Term bonds (5.95%), due 2032	9,790	2,265	6,430
	30,305	11,175	20,535

Bonds payable, continued	Original Amount	Balance 2003	Balance 2002
2001 Series A-1:			
Term bonds (5.35%), due 2019	2,045	1,290	1,955
	2,045	1,290	1,955
2001 Series A-2:			
Serial bonds (3.75% to 5.15%), due 2003 - 2013	5,895	3,650	5,615
Term bonds (5.60%), due 2021	4,085	2,580	3,910
Term bonds (5.70%), due 2031	7,695	4,855	7,365
PAC bonds (4.80%), due 2031	7,600	6,210	6,970
Term bonds (5.70%), due 2032	7,680	4,845	7,355
	32,955	22,140	31,215
2001 Series B-1:			
PAC bonds (6.15%), due 2033	10,000	7,980	9,420
	10,000	7,980	9,420
2001 Series B-2:			
Serial bonds (4.15% to 4.70%), due 2007 - 2012	2,465	1,860	2,360
	2,465	1,860	2,360
2001 Series B-3:			
Serial bonds (3.80% to 4.30%), due 2004 - 2007	1,335	1,000	1,275
Term bonds (5.45%), due 2020	2,500	1,880	2,390
Term bonds (5.45%), due 2021	4,480	3,375	4,290
Term bonds (5.55%), due 2032	8,220	6,185	7,865
Term bonds (5.55%), due 2033	11,000	8,285	10,530
	27,535	20,725	26,350
2001 Series C:			
Serial bonds (2.75% to 4.75%), due 2003 - 2012	6,965	4,915	6,915
Term bonds (5.25%), due 2021	8,090	6,290	8,025
PAC bonds (4.30%), due 2031	8,785	7,810	8,410
Term bonds (5.375%), due 2031	16,160	12,570	16,040
	40,000	31,585	39,390
2001 Series D-1:			
Term bonds (1.90%), due 2013	2,235	—	—
	2,235	—	—
2001 Series D-2:			
Term bonds (1.95%), due 2034	43,455	—	—
	43,455	—	—

Bonds payable, continued	Original Amount	Balance 2003	Balance 2002
2002 Series A:			
Serial bonds (2.55% to 5.00%), due 2004 - 2014	7,510	6,160	7,455
Term bonds (5.30%), due 2022	6,340	5,180	6,260
Term bonds (5.35%), due 2027	5,845	5,845	5,845
Term bonds (5.45%), due 2032	5,000	4,080	4,935
Term bonds (5.45%), due 2033	5,305	4,325	5,235
PAC bonds (4.50%), due 2032	10,000	9,425	9,965
	40,000	35,015	39,695
2002 Series B:			
Serial bonds (2.80% to 4.70%), due 2003 - 2012	6,930	5,840	6,930
Term bonds (5.45%), due 2021	3,000	2,660	3,000
Term bonds (5.45%), due 2022	5,435	4,815	5,435
Term bonds (5.55%), due 2031	4,000	3,545	4,000
Term bonds (5.55%), due 2032	10,310	9,140	10,310
PAC bonds (4.50%), due 2031	10,325	9,875	10,305
	40,000	35,875	39,980
2002 Series C-1:			
Serial bonds (4.00% to 4.30%) due 2010 - 2013	2,235	2,090	2,235
	2,235	2,090	2,235
2002 Series C.-2:			
Serial bonds (2.40% to 4.85%), due 2004 - 2014	6,410	6,000	6,410
Term bonds (5.25%), due 2023	7,815	7,195	7,815
Term bonds (5.40%), due 2029	9,625	8,860	9,625
PAC bonds (4.15%), due 2032	11,860	11,425	11,850
Term bonds (5.40%), due 2033	7,745	7,130	7,745
	43,455	40,610	43,445
2002 Series D-1:			
Taxable term bond (floating rate), due 2032	5,000	5,000	5,000
	5,000	5,000	5,000
2002 Series D-2:			
Serial bonds (1.90% to 4.05%), due 2003 - 2012	9,105	8,555	9,105
Term bonds (4.85%), due 2022	5,900	5,815	5,900
Term bonds (4.85%), due 2022	2,500	2,465	2,500
Term bonds (4.95%), due 2032	5,560	5,480	5,560
PAC bonds (3.60%), due 2031	11,435	5,420	11,435
Term bonds (4.95%), due 2032	5,500	11,275	5,500
	40,000	39,010	40,000
2002 Series E-1:			
Notes (1.35%), due 2017	12,945	—	12,945
	12,945	—	12,945

Bonds payable, continued	Original Amount	Balance 2003	Balance 2002
2002 Series E-2:			
Notes (1.40%), due 2034	66,260	—	66,260
	66,260	—	66,260
2003 Series A:			
Serial bonds (1.90% to 4.35%), due 2005 - 2013	7,185	7,185	—
Term bonds (4.90%), due 2022	4,945	4,945	—
Term bonds (4.90%), due 2022	3,000	3,000	—
Term bonds (4.95%), due 2034	17,570	17,570	—
PAC bonds (4.70%), due 2033	12,250	12,200	—
	44,950	44,900	—
2003 Series B:			
Serial bonds (2.90% to 3.90%), due 2010 - 2016	3,805	3,805	—
Term bonds (4.25%), due 2024	8,015	8,015	—
Term bonds (4.40%), due 2033	7,070	7,070	—
Term bonds (4.40%), due 2034	7,000	7,000	—
PAC bonds (4.00%), due 2033	19,060	19,060	—
	44,950	44,950	—
2003 Series C-1:			
Serial bonds (3.65% to 4.45%), due 2010	3,785	3,785	—
	3,785	3,785	—
2003 Series C-2:			
Serial bonds (1.80% to 4.35%), due 2005 - 2013	3,155	3,155	—
Term bonds (5.10%), due 2023	3,810	3,810	—
Term bonds (5.10%), due 2024	3,810	3,810	—
Term bonds (5.20%), due 2033	7,605	7,605	—
Term bonds (5.20%), due 2034	7,605	7,605	—
PAC bonds (5.00%), due 2034	15,180	15,180	—
	41,165	41,165	—
2003 Series D-1:			
Serial bonds (3.30% to 4.20%), due 2009 - 2014	5,355	5,355	—
	5,355	5,355	—
2003 Series D-2:			
Serial bonds (1.80% to 3.40%), due 2005 - 2009	4,305	4,305	—
Term bonds (4.85%), due 2022	5,715	5,715	—
Term bonds (4.85%), due 2023	5,380	5,380	—
Term bonds (4.90%), due 2028	5,305	5,305	—
Term bonds (4.90%), due 2029	5,400	5,400	—
PAC bonds (5.25), due 2033	10,500	10,500	—
Term bonds (4.95%), due 2033	8,205	8,205	—
	44,810	44,810	—
2003 Series E-1:			
Term bonds (1.20%), due 2005	12,990	12,990	—
	12,990	12,990	—

(Continued)

INDIANA HOUSING FINANCE AUTHORITY

Notes to Financial Statements

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Bonds payable, continued	Original Amount	Balance 2003	Balance 2002
2003 Series E-2:			
Term bonds (1.25%), due 2005	93,765	93,765	—
	93,765	93,765	—
	$ 1,640,255	901,865	940,850

Multi-Unit Mortgage Program Fund	Original Amount	Balance 2003	Balance 2002
1983 Series A:			
Term bonds (9.125%), due 2002	$ 300	—	—
Term bonds (9.375%), due 2024	1,720	—	—
	2,020	—	—
1993 Series A:			
Serial Bonds (6.20% to 6.30%), due 2002 – 2003	2,185	—	195
Term bonds (6.60%), due 2011	2,075	2,075	2,075
Term bonds (6.75%), due 2021	4,665	4,665	4,665
	8,925	6,740	6,935
1992 Hunter's Run:			
Term bonds (7.0%), due 2003	400	—	45
Term bonds (7.25%), due 2018	1,500	—	1,500
Term bonds (7.35%), due 2033	5,330	—	5,330
	7,230	—	6,875
1997 Series M-A (Cumberland Crossing):			
Term bonds (adjustable rate), due 2028	9,200	8,844	8,924
	9,200	8,844	8,924
1997 Series M-B (Cumberland Crossing):			
Term bonds (adjustable rate), due 2028	800	769	776
	800	769	776
1999 Series A (Indiana Affordable Housing):			
Term bonds (5.40%), due 2009	1,400	—	—
Term bonds (6.10%), due 2020	5,500	—	—
Term bonds (6.20%), due 2030	10,430	—	—
	17,330	—	—
1999 Series B (Indiana Affordable Housing):			
Term bonds (6.88%), due 2004	860	—	—
	860	—	—
	$ 46,365	16,353	23,510

First Home Mortgage Program Fund	Original Amount	Balance 2003	Balance 2002
1994 Series A:			
Serial bonds (5.36% to 5.81%), due 2003 – 2008	$ 1,165	200	340
Term bonds (5.96%), due 2014	1,015	365	520
Term bonds (6.06%), due 2020	1,430	515	725
Term bonds (6.11%), due 2025	1,430	475	670
	5,040	1,555	2,255
1994 Series B:			
Serial bonds (5.18% to 5.68%), due 2003 – 2008	1,165	105	315
Term bonds (5.88%), due 2014	1,015	205	500
Term bonds (5.93%), due 2020	1,430	265	635
Term bonds (5.98%), due 2025	1,430	250	600
	5,040	825	2,050
1994 Series C:			
Serial bonds (4.91% to 5.46%), due 2003 – 2008	1,165	205	355
Term bonds (5.71%), due 2014	1,015	365	535
Term bonds (5.81%), due 2020	1,455	475	695
Term bonds (5.86%), due 2025	1,430	440	645
	5,065	1,485	2,230
1994 Series D:			
Serial bonds (5.34% to 5.64%), due 2003 – 2008	1,165	185	330
Term bonds (5.84%), due 2014	1,015	365	540
Term bonds (5.94%), due 2020	1,455	460	680
Term bonds (5.94%), due 2025	1,430	410	610
	5,065	1,420	2,160
	$ 20,210	5,285	8,695

Working Families Program Fund	Original Amount	Balance 2003	Balance 2002
1994 Series D:			
Term bonds (3.90%), due 1996	$ 31,265	—	—
Term bonds (5.60%), due 2009	—	—	—
Term bonds (6.35%), due 2017	—	5,860	9,765
	31,265	5,860	9,765
1996 Series B:			
Serial bonds (5.25% to 5.35%), due 2003 – 2004	3,225	65	410
Term bonds (5.80%), due 2020	6,220	875	1,790
Term bonds (6.45%), due 2025	13,835	3,895	8,185
Term bonds (6.45%), due 2027	7,500	2,105	4,430
	30,780	6,940	14,815
	$ 62,045	12,800	24,580

(Continued)

The Single Family, Multi-Unit, First Home and Working Families bonds are special obligations of the Authority. The bonds are payable solely from the revenues and assets pledged to the payment thereof pursuant to the Bond Trust Indentures. Hunters Run, Cumberland Crossing, and Indiana Affordable Housing, three bond series within the Multi-Unit Mortgage Program Fund, are conduit issues. All scheduled, advance and delinquent payments on mortgage loans, mortgage insurance and guaranty proceeds received by the Authority, and the earnings on investments of amounts held under the Bond Trust Indentures are pledged to secure the payment of these three bond series. The three bond series are also secured by a pledge and assignment of the rights and interests of the Authority in the mortgage loans and a pledge of the investment accounts of the program fund and the amounts of which are prescribed by the Trust Indentures. Pursuant to a credit agreement with FNMA, the Indiana Affordable Housing bond series was paid off in 2002 as a result of foreclosure.

The 1997 Series D, 1998 Series A, 1998 Series B, 1998 Series C, 1999 Series X, 1999 Series Y, 1999 Series Z, 2000 Series B, 2000 Series C, 2000 Series D, 2001 Series B and 2002 Series D include both taxable and tax-exempt bonds. Taxable bonds were utilized to increase resources for the Authority's mortgage program.

The 2000 Series A includes only taxable bonds.

The 2002 Series D-1 are floating rate bonds. The interest rate is the three-month LIBOR plus .28% (1.43% at December 31, 2003) adjusted on the second business day preceding the beginning of each calendar quarter. The General Fund purchased an interest rate cap to protect the rate from exceeding 7.0%.

The 1997 Series M-A and 1997 Series M-B Bonds have an adjustable rate that is currently remarketed on a weekly basis.

The 2001 Series D bonds were refunded with the issuance of 2002 Series C.

The 2002 Series E bonds were repaid with portions of the proceeds from 2003 Series B, C, and D.

The Single Family, Multi-Unit, First Home and Working Families bonds are subject to optional redemption provisions at various dates at prices ranging from 100 to 103 percent of the principal amount, extraordinary optional redemption at par from unexpended or uncommitted funds, prepayments of mortgage loans and proportionate amounts in certain related accounts or excess revenues. The Authority redeemed $266,720,000 and $164,580,000 of bonds in 2003 and 2002, respectively, from prepayments which had been received. The bond redemptions resulted in write-offs of unamortized discount and deferred debt issuance costs related to the redeemed bonds.

The Authority has a line of credit of $53,670,000 which is due on June 30, 2004. Interest is due on the outstanding borrowings at a variable rate based on LIBOR (1.328% at December 31, 2003).

The following are the scheduled amounts of principal and interest payments on bond payable obligations in the five years subsequent to December 31, 2003 and thereafter (all amounts in the thousands). The Authority typically has significant prepayments of principal amounts and therefore does not expect to pay out interest payments in their scheduled amounts.

		Single Family Mortgage Program Fund		Multi-Unit Mortgage Program Fund		First Home Program Fund		Working Families Program Fund		Total		Total
		Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Payments
2004	$	12,295	43,841	301	875	145	308	65	812	12,806	45,836	58,642
2005 *		121,850	41,690	326	857	155	300	—	810	122,331	43,657	165,988
2006		15,650	40,947	352	838	160	292	—	810	16,162	42,887	59,049
2007		16,570	40,171	379	817	160	283	—	810	17,109	42,081	59,190
2008		17,970	39,322	408	795	170	274	—	810	18,548	41,201	59,749
2009-2013		103,645	181,485	2,581	3,580	995	1,202	2,880	3,705	110,101	189,972	300,073
2014-2018		123,655	150,369	3,833	2,698	1,345	871	3,400	2,570	132,233	156,508	288,741
2019-2023		151,750	114,384	4,369	1,447	1,635	435	3,125	1,714	160,879	117,980	278,859
2024-2028		194,330	67,207	3,804	493	520	31	3,330	443	201,984	68,174	270,158
2029-2033		140,385	17,184	—	—	—	—	—	—	140,385	17,184	157,569
2034-2038		3,765	93	—	—	—	—	—	—	3,765	93	3,858
Original issue premium		3,243	—	—	—	—	—	—	—	3,243	—	3,243
Original issue discount		(43)	—	(69)	—	—	—	—	—	(112)	—	(112)
Total	$	905,065	736,693	16,284	12,400	5,285	3,996	12,800	12,484	939,434	765,573	1,705,007

* Includes scheduled repayments of 2003 Series E notes.

Summary of long-term debt as of December 31, 2003 (dollars in thousands):

Interest rate ranges	Maturity range	Annual payment range of principal	Amount
1.20% – 7.85%	2004 – 2034	$3,765 – $122,331	$936,303

Changes in Obligations

The following are changes in the obligations of the Authority for the year ended December 31, 2003.

Short-term obligations (in thousands):

	Balance at December 31, 2002	Borrowings	Repayments	Balance at December 31, 2003
Line of credit	$ —	53,670,000	—	53,670,000

Long-term obligations (in thousands):

	Balance at December 31, 2002	Increases	Decreases	Balance at December 31, 2003	Amounts due within one year	Amounts due thereafter
Bonds payable/notes payable	$ 997,635	291,770	353,102	936,303	12,806	923,497
Less original discount	(131)	—	(19)	(112)	—	(112)
Add original premium	—	3,243	—	3,243	—	3,243
Other liabilities	952	213	—	1,165	—	1,165
	$ 998,456	295,226	353,083	940,599	12,806	927,793

	Balance at December 31, 2001	Increases	Decreases	Balance at December 31, 2002	Amounts due within one year	Amounts due thereafter
Bonds payable/notes payable	$ 983,985	249,895	236,245	997,635	13,962	983,673
Less original discount	(148)	—	(17)	(131)	—	(131)
Add original issue premium	—	—	—	—	—	—
Other liabilities	759	193	—	952	—	952
	$ 984,596	250,088	236,228	998,456	13,962	984,494

(7) Commitments

As of December 31, 2003, the Authority had the following commitments:

Lease

Lease expense for 2003 and 2002, was $462,071 and $237,705, respectively. The Authority entered into a lease agreement for new office space in February 2003. The Authority paid $124,020 in December 2002 for termination of its existing office lease. The new lease requires payments of $29,464 per month ($353,568 per year) for the ten-year term of the lease. The move to the new office space was completed in April 2003.

Excess Investment Earnings

In order to preserve the exemption of federal and state income taxation on interest received by the bond holders, each bond issue is subject to certain Internal Revenue Code (IRC) and U.S. Treasury Regulations. Under these regulations, the Authority is required to pay the federal government any excess earnings as defined by IRC Section 148(f) on all nonpurpose investments if such investments were invested at a rate greater than the yield on the bond issue.

The Authority's liability, included in accounts payable and other liabilities on the combined balance sheet, for excess earnings at December 31, follows:

		2003	2002
Single Family Program Fund	$	590,624	401,517
Working Families Program Fund		140,430	140,430
	$	731,054	541,947

Contingency

The Authority serves as a Participating Jurisdiction (PJ) for the HOME Investment Partnerships Program (HOME) monies for the State of Indiana from the U.S. Department of Housing and Urban Development (HUD). The HOME funds are used to develop affordable housing. Properties assisted with HOME money have an affordability period for which they must remain targeted for low-income persons. The affordability period varies depending on the amount of assistance the property received. In 2003, HUD published a policy newsletter that would make PJ's responsible for repaying HOME monies invested in properties that failed to meet their affordability periods, regardless of the circumstances. This policy is contrary to IHFA's understanding of the HOME statute, regulations, and implementation to date. IHFA, along with other recipients of HOME Funds, has asked that HUD reconsider the repayment guidance. Nonetheless, IHFA is making programmatic adjustments to be prepared should HUD continue to pursue implementation of this new repayment policy. No liability has been recorded for any amounts that may be due HUD if the revised policy is enforced.

(8) Retirement Plan

(a) Plan Description

The Authority contributes to the Indiana Public Employees' Retirement Fund (PERF), an agent multiple-employer retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. PERF was created and is governed by state statutes I.C.S. 5-10.2 and 5-10.3. As such, it is PERF's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401(a) and is tax exempt.

The plan is a contributory defined benefit plan which covers substantially all Authority employees. PERF retirement benefits vest after 10 years of service. Effective July 1, 1995, Senate Bill 74 enabled PERF members to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. An employee may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the employee's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions are met, an employee may retire with 100% of the defined pension at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years and months of PERF-covered employment. The average annual salary used for calculating the pension benefit is an average of the employee's highest five years of employment earning within the 10 years preceding retirement.

Employees who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit that is reduced by various percentages according to the member's age.

Employees have two choices regarding their annuity savings account. They may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or, they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described in the paragraph above.

PERF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERF, Harrison Building, Suite 800, 143 West Market Street, Indianapolis, Indiana 46204.

(b) Funding Policy

The Authority contributes the employees' required contribution of 3% of their annual salaries to an annuity savings account that may be withdrawn at any time with interest should an employee terminate employment. The Authority is required by State statute to contribute at an actuarially determined rate. The current rate is 5.6% of annual covered payroll. The contribution requirements of plan members are determined by State statute.

(c) Annual Pension Cost

For the 2003 plan year, the required contribution of $110,140 exceeded the Authority's annual pension cost of $104,789. For the 2002 and 2001 plan years, the Authority's annual pension cost of $92,121 and $84,070, respectively, exceeded the required contributions. The PERF funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the Authority's employee group as a whole has tended to remain level as a percentage of annual covered payroll. The required contributions were determined as part of the June 30, 2003, 2002 and 2001 actuarial valuation using the entry age normal cost method. The asset valuation method is 75% of expected actuarial value plus 25% of market value. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 7.25% per year, compounded annually; (b) projected salary increases of 5.00% per year, attributable to inflation; and (c) assumed annual post retirement benefit increases of 2.00%. PERF uses the level percentage of payroll method to amortize the unfunded liability over a closed 40-year period.

INDIANA HOUSING FINANCE AUTHORITY

Required Pension Supplementary Information

Schedule of Funding Progress and Employer Contributions

December 31, 2003 and 2002

(Unaudited)

Asset valuation date		(1) Actuarial value of assets	(2) Actuarial accrued liability (AAL) entry age	(2-1) Unfunded (overfunded) AAL (UAAL)	(1/2) Funded ratio		(3) Covered payroll	[(2-1)/3] UAAL as a percentage of covered payroll	Annual pension cost (APC)	Percentage of APC contributed
June 30,2003	$	978,000	1,062,000	84,000	92%	$	2,033,000	4%	110,140	95%
June 30, 2002		816,000	841,000	25,000	97%		1,745,000	1%	88,674	104%
June 30, 2001		621,000	571,000	(50,000)	109%		1,530,000	—	62,181	136%